

Message Text

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ACTION FBO-01

INFO OCT-01 AF-05 NEA-05 ISO-00 /012 W

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P R 031602Z DEC 73

FM AMEMBASSY TUNIS

TO SECSTATE WASHDC 3829

INFO AMEMBASSY NEW DELHI

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DEPT FOR FBO MORRISON AND AF/N

E.O. 11652: N/A

TAGS: EFIN, TS

SUBJECT: POSSIBLE TUNISIAN CHALLENGE OF SURPLUS DINARS
PAYMENT FOR US-ORIGIN EQUIPMENT

1. SUMMARY: EMBASSY HAS RECEIVED INDICATIONS THAT GOT MAY CHALLENGE RIGHT OF FBO TO PAY US-OWNED TUNISIAN DINARS TO US SUPPLIERS FOR AMERICAN EQUIPMENT TO BE USED IN VARIOUS OVERSEAS EMBASSIES. ACTION REQUESTED: EMBASSY WOULD APPRECIATE SOONEST ARGUMENTS WHICH WE COULD USE TO DEMONSTRATE THAT, ALTHOUGH THIS PRACTICE IS NOT CONSISTENT WITH TUNISIAN FOREIGN EXCHANGE CONTROL REGULATIONS, IT IS SPECIFICALLY PERMITTED BY USG-GOT AGREEMENTS ON USE OF EXCESS CURRENCY GENERATED UNDER PL-480 OR EARLY AID LOAN AGREEMENTS. IF THIS RIGHT NOT CLEARLY ESTABLISHED, WE BELIEVE PAYMENT SHOULD BE MADE IN DOLLARS RATHER THAN DINARS. IN MEANTIME, WE WILL HOLD CAPCO CHECK REQUESTED TUNIS 6659 UNTIL CLARIFICATION RECEIVED. TO AVOID FURTHER EMBARRASSEMENT, WE BELIEVE NO FURTHER SUCH TRANSACTIONS SHOULD BE MADE.
END SUMMARY.

2. LOCAL REPRESENTATIVES HOLIDAY OVERSEAS INFORMED EMBASSY THAT CENTRAL BANK OFFICIAL STRONGLY OBJECTED TO ACQUISITION BY CUSTOM APPLIED POWER COMPANY (CAPCO) OF 79,228 US-OWNED TUNISIAN DINARS IN PAYMENT FOR EQUIPMENT SOLD TO FBO. THIS OFFICIAL SAID TRANSACTION CONTRARY TO EXISTING AGREE-
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MENTS ON USE OF SURPLUS CURRENCY. HE INDICATED THAT HE WOULD

BRING THIS "VIOLATION" TO ATTENTION OF HIGHER AUTHORITY AND SEEK REDRESS OF SITUATION. (HOLIDAY REP HAD APPROACHED CENTRAL BANK TO SEEK PERMISSION TO INCLUDE CAPCO FUNDS WITHIN HOLIDAY'S INVESTMENT PLAN TO BUILD TOURIST COMPLEX IN MONSSTIR).

3. SUBSEQUENTLY, CAPCO REP GEOFFREY HYDE TOLD EMBASSY THAT, WITH SUPPORT PROMINENT PRIVATE BUSINESSMAN, HE HAD APPROACHED HIGHEST LEVEL IN CENTRAL BANK WITH PLAN TO INVEST BULK OF FUNDS IN LOCAL MANUFACTURING PLANT FOR EXPORT AND TO USE REMAINDER TO PURCHASE TUNISIAN COMMODITIES FOR SALE ABROAD WITH PROCEEDS BEING RETAINED BY CAPCO. HE CLAIMS SENIOR BANK OFFICIALS HAD REACTED POSITIVELY TO HIS PROPOSAL AND ASKED HYDE TO SUBMIT FORMAL PROPOSALS DIRECTLY TO THEM EARLY THIS WEEK. HIS DRAFT PROPOSALS SLIDE OVER ORIGIN OF FUNDS, MERELY NOTING THAT CAPCO HAD AGREED TO ACCEPT DINAR PAYMENT FOR EQUIPMENT SOLD TO US EMBASSY WITH INTENT OF INVESTING IN TUNISIA AND EXPORTING TUNISIAN GOODS.

4. COMMENT: HYDE MAY BE CORRECT THAT ATTRACTIVENESS OF HIS OFFER AND STRONG SUPPORT OF INFLUENTIAL TUNISIANS MAY SUCCEED IN OBTAINING HIGH LEVEL APPROVAL HIS PROPOSAL TO USE DINARS. HOWEVER, LOWER-LEVEL OFFICIALS ARE CONVINCED CAPCO'S ACQUISITION AND SUBSEQUENT UTILIZATION FOR ANY PURPOSE OF US-OWNED DINARS PAID FOR US-ORIGIN EQUIPMENT ARE CONTRARY TO TUNISIAN FOREIGN EXCHANGE REGULATIONS. THIS CONVICTION WILL BE STRENGTHENED WHEN THEY DISCOVER, AS THEY ARE BOUND TO, THAT BULK OF EQUIPMENT NOT EVEN DESTINED FOR TUNISIA BUT FOR US EMBASSIES IN OTHER COUNTRIES. IF THESE OFFICIALS NOT ABLE KILL HYDE PROPOSAL NOW, THEY MIGHT BE ABLE DELAY PROJECT AND CAUSE PROBLEMS IN FUTURE AND FURTHER HAMPER USE OF US-OWNED DINARS ON WHICH TUNISIAN OFFICIALS SHOWING INCREASING SENSITIVITY.

5. ACTION REQUESTED: FROM READING OF RELEVANT AGREEMENTS, EMBASSY DOES NOT BELIEVE THAT AUTHORITY TO PAY US-OWNED DINARS FOR OBLIGATIONS OF US AGENCIES IN TUNISIA CAN BE EXTENDED TO PRESENT PURCHASE. WOULD APPRECIATE KNOWING IF THERE ARE POSSIBLE EXCEPTIONS AND ANY GUIDANCE FOR LIMITED OFFICIAL USE

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APPROPRIATE RESPONSE IN EVENT PAYMENT TO CAPCO IS CHALLENGED BY GOT. IF CONVINCING REASONABLE NOT POSSIBLE AND GOT DOES NOT GIVE EARLY APPROVAL TO HYDE PROPOSAL, EMBASSY RECOMMENDS THAT FBO PAY CAPCO OUT OF APPROPRIATED DOLLAR FUNDS RATHER THAN SURPLUS DINARS. IF GOT MAKES MAJOR ISSUE OF THIS TRANSACTION, IT COULD BE MOST POLITICALLY EMBARRASSING TO US HERE AND IN OTHER DEVELOPING STATES AND COULD SERIOUSLY INTERFERE WITH MORE NORMAL USE OF DINARS

FOR ACTIVITIES OF DIRECT VALUE TO U.S. WOULD APPRECIATE
RESPONSE ASAP SINCE EMBASSY PLANS NOT DELIVER CHECK TO
HYDE REQUESTED TUNIS 6659 UNTIL CLARIFICATION RECEIVED.
WE ALSO UNDERSTAND OTHER SIMILAR PURCHASES FOR CAPCO,
PRINCE INDUSTRIES, AND POSSIBLE OTHER SUPPLIERS UNDER
CONSIDERATION AND BELIEVE THAT NONE OF THESE SHOULD BE
CARRIED OUT IN VIEW OF POTENTIAL DIFFICULTIES.

6.NEW DELHI: CAPCO INFORMED EMBASSY THAT IT ACCEPTED
INDIAN RUPEES FOR SOME EQUIPMENT SALES AND IS HAVING
SIMILAR PROBLEM DISPOSING THESE LOCAL FUNDS AS IN TUNISIA.
WOULD APPRECIATE ANY INFORMATION FROM EMBASSY NEW DELHI
ON SUBJECT WHICH MIGHT BE USEFUL HERE.

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